HSBC Warrant/CBBC Handbook

HSBC

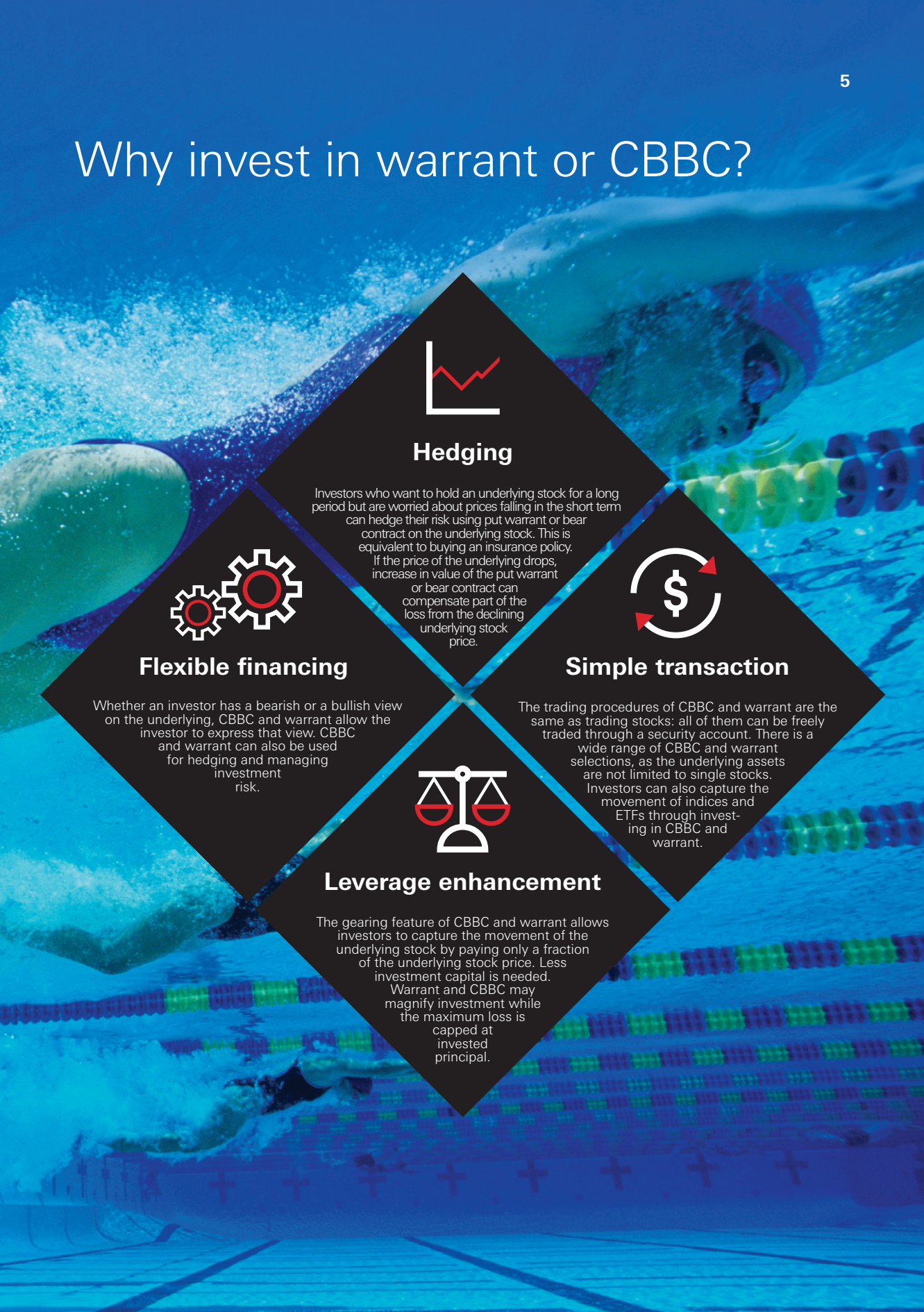
Content

Get started

Differences between a warrant, CBBC and the underlying asset

	Warrant	CBBC	Underlying asset
Implied volatility	Price is influenced by implied volatility, especially for at-the-money warrants	Price is less influenced by implied volatility. However, rising market volatility may increase issuer's hedging difficulty and the cost of risk management	Not influenced by implied volatility
Delta	For in and out-of-money warrants, delta can range from 0 to 100% (call) or from -100% to 0 (put)	Delta is close to 1	N/A
Mandatory call mechanism	N/A	CBBC may be called back before maturity and trading will be suspended	N/A
Time to expiry	A warrant is influenced by time value. Warrant is worth less as expiry date approaches. The closer to maturity, the faster the time value drops	CBBC is less influenced by time value	Not influenced by time value. Price will not be impacted by passage of time
Maturity settlement	Individual stock warrant is settled by referencing the average price of underlying for five trading days before maturity	Individual stock CBBC is settled by referencing the closing price of the last trading day of the underlying before maturity	N/A
Dividend of underlying asset	• If the underlying asset pays dividend more or earlier than the issuer expected, call warrant price may drop, while put warrant price may rise, and vice versa • Warrant investor will not receive any dividend on the underlying asset	• If the underlying asset pays dividend more or earlier than the issuer expected, bull contract price may drop, while bear contract price may rise, and vice versa • CBBC investor will not receive dividend	If underlying asset pays dividend, investor will be entitled to it

Why invest in warrant or CBBC?



Hedging

Investors who want to hold an underlying stock for a long period but are worried about prices falling in the short term can hedge their risk using put warrant or bear contract on the underlying stock. This is equivalent to buying an insurance policy. If the price of the underlying drops, increase in value of the put warrant or bear contract can compensate part of the loss from the declining underlying stock price.

Flexible financing

Whether an investor has a bearish or a bullish view on the underlying, CBBC and warrant allow the investor to express that view. CBBC and warrant can also be used for hedging and managing investment risk.

Simple transaction

The trading procedures of CBBC and warrant are the same as trading stocks: all of them can be freely traded through a security account. There is a wide range of CBBC and warrant selections, as the underlying assets are not limited to single stocks. Investors can also capture the movement of indices and ETFs through investing in CBBC and warrant.

Leverage enhancement

The gearing feature of CBBC and warrant allows investors to capture the movement of the underlying stock by paying only a fraction of the underlying stock price. Less investment capital is needed. Warrant and CBBC may magnify investment while the maximum loss is capped at invested principal.

How should an investor choose between warrant and CBBC?

Do you wish to increase potential returns through leverage and by taking on increased potential risks?

Yes

Do you understand that when trading warrant/CBBC, the maximum loss is capped at invested principal while returns may be magnified?

Yes

Do you expect that volatility of the underlying asset to increase in the future?

Yes

You may consider **warrant**.
Please refer to
Page 8
for details.

No

No

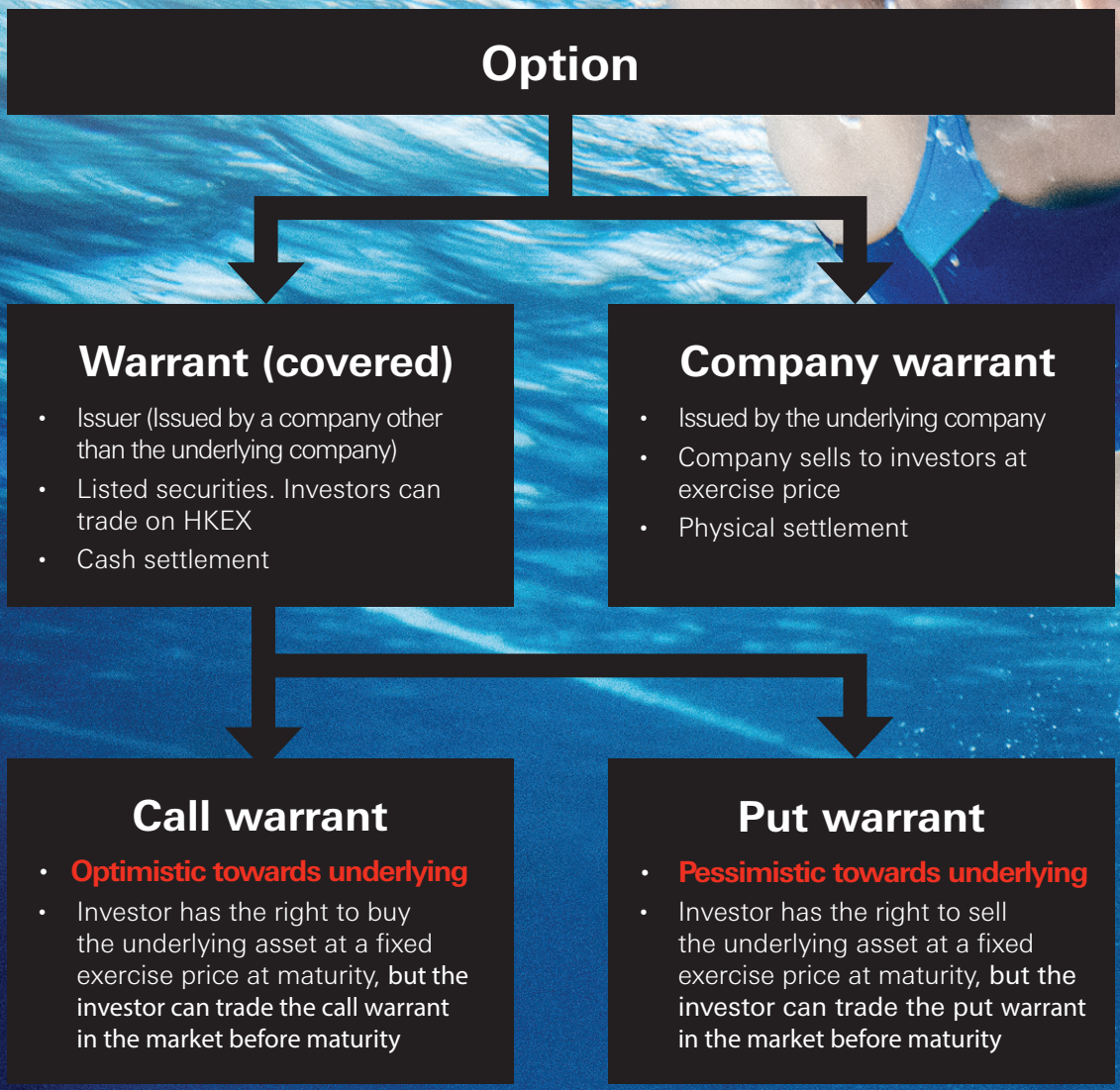
No

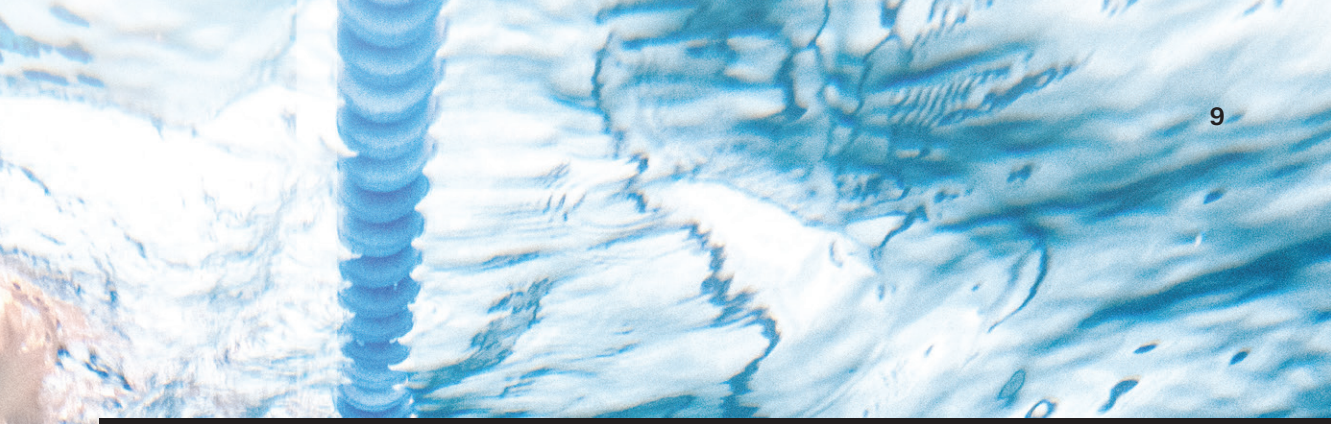
Warrant/CBBC may not be suitable products for you. You are advised to consider other investment products instead. Before investing, you should understand the products and your risk tolerance. You should seek for professional advice where needed.

You may consider **CBBC**.
Please refer to
Page 17
for details.

Know your stuff – Warrant

What is a warrant?





How can a warrant provide investors with leverage?

The gearing feature of a warrant allows investors to capture the movement of the underlying asset by paying only a fraction of the underlying asset price. Less investment capital is needed. A warrant may magnify investment returns and losses, while the maximum loss is capped at invested principal.

Example: A call warrant and a put warrant on Company XYZ

Assume the stock price of Company XYZ increases (or decreases) $10 from $200.
In other words, the stock price of Company XYZ increases (or decreases) by 5%.
Assume the effective gearing of a call warrant is 10 times.
Assume the effective gearing of a put warrant is 8 times.

Stock price of Company XYZ increases (decreases) by	Theoretical increase (decrease) of a call warrant	Theoretical decrease (increase) of a put warrant
5%	**5% x 10 = 50%**	**5% x 8 = 40%**

*The example is for illustrative purposes only and is not indicative of future returns.

Major factors that influence the price of a warrant

Price of the underlying asset

The price of a warrant consists of two components = intrinsic value + time value

Intrinsic value

For a call warrant: Intrinsic value exists if the spot price of the underlying asset is higher than the exercise price of the warrant.
For a put warrant: Intrinsic value exists if the exercise price of the warrant is higher than the spot price of the underlying asset.

Time value is the difference between the warrant price and its intrinsic value. Time value exists as long as the warrant is not expired and is impacted by implied volatility, interest rates and the maturity date.

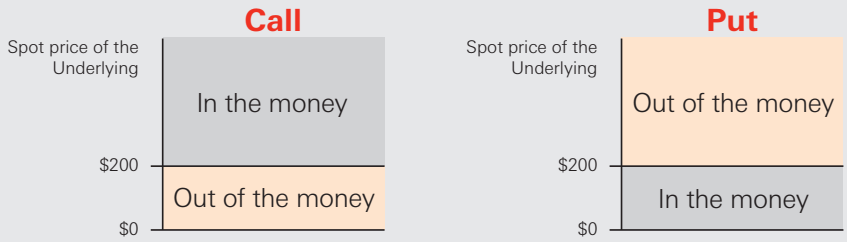
Exercise price
A warrant holder can trade warrant in the market before maturity. If the warrant is in-the-money at maturity, it will be exercised automatically, and investors will receive cash at settlement.

Tips
Warrants traded on HKEX are all settled in cash, i.e. no physical delivery of stocks on maturity date.

Comparison Among In-the-Money, At-the-Money and Out-of-the-Money Warrants

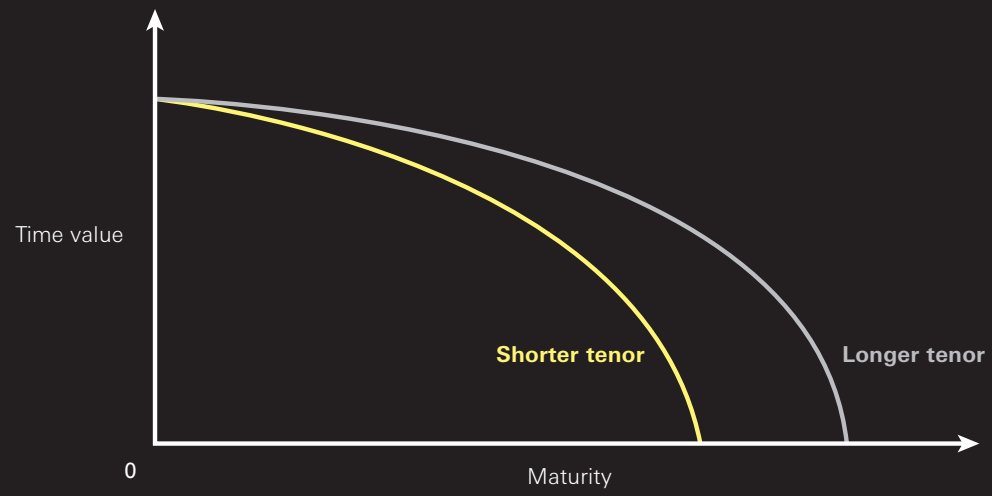
Warrant type	Call	Put	Intrinsic value
In-the-money	exercise price < underlying asset price	exercise price > underlying asset price	> 0
At-the-money	exercise price = underlying asset price	exercise price = underlying asset price	= 0
Out-of-the-money	exercise price > underlying asset price	exercise price < underlying asset price	= 0

E.g. Exercise price of a call and a put warrant = $200



Time to expiry

Assuming the price of the underlying asset and all other factors remain constant, the time value of warrant will decline with passage of time. The closer it is to maturity, the faster the time value of the warrant drops. The daily time value decay of a warrant with longer tenor will tend to decrease slower than that of a warrant with short tenor.



Implied volatility

The implied volatility is the expected volatility of the warrant over a specific period of time. The change in implied volatility will be affected by market demand and supply, over-the-counter options, underlying's historical volatility and change in listed options.

Issuers have varied operation models and risk management frameworks, hence warrants issued by different issuers may have a different implied volatility despite having similar terms and conditions.

Tips

Implied volatility is an important factor in considering a warrant. It represents the market expectations on the future volatility of the underlying stock price. In general, the market regards it as one of the indicators to determine the relative price of warrants. The higher the implied volatility, the higher the warrant price.

Major factors that influence the price of a warrant

Dividend of the underlying asset

Issuers have taken into account the expected dividends of the underlying asset into a warrant's price at issuance. Therefore, when dividend is paid per issuer's expectations, the warrant price is not impacted by the decrease in underlying price in theory. However, if the underlying asset pays more dividend or earlier than the issuer expected, the call warrant price may decrease and the put warrant price may increase.*

On the other hand, if the underlying asset distributes less dividend or later than the issuer expected, the call warrant price may increase and the put warrant price may decrease.*

*Assuming other factors remain unchanged.
For details, refer to Listing Document.

Interest rate

Warrant price is affected by interest rates. When interest rates go up, the call (put) warrant price will increase (decrease) theoretically.

Market demand and supply

Warrant issuers are liquidity providers for warrants. When market demand surges, outstanding quantities of warrants will increase, pushing the warrant prices higher. On the contrary, when investors rush to sell the warrants that they hold, the warrant prices may fall due to overselling. As such, warrant prices can deviate from their theoretical values due to market demand and supply.

Summary

Factors	Direction	Call price	Put price
Underlying price	▲	▲	▼
Exercise price	▲	▼	▲
Time to maturity	▼	▼	▼
Implied volatility	▲	▲	▲
The difference between actual dividend and issuer's expectation	▲	▼	▲
Interest rate	▲	▲	▼

Settlement of a warrant at maturity

$$\text{Call warrant cash settlement amount} = \frac{\text{settlement price of the underlying asset} - \text{exercise price of the warrant}}{\text{conversion ratio}}$$

$$\text{Put warrant cash settlement amount} = \frac{\text{exercise price of the warrant} - \text{settlement price of the underlying asset}}{\text{conversion ratio}}$$

For **individual stock warrant**, settlement price is the average closing price of warrant's underlying in 5 trading days before the maturity date (The stock price on the maturity date is not included).

Example:
Assume exercise price of the call warrant is $3.5, with conversion ratio of 1 and maturity date on 24 July

Cash settlement amount:

$$= \frac{\text{(Sum of underlying closing prices in the 5 trading days before maturity / 5)} - \text{exercise price of the warrant}}{\text{conversion ratio}}$$

$$= \frac{\$(3.5+3.6+3.8+3.6+3.8)/5 - \$3.5}{1} = \$0.16$$

July

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
15	16 ($3.5)	17 ($3.6)	18 Holiday	19 ($3.8)	20	21
22 ($3.6)	23 ($3.8)	24 Maturity date	25	26	27	28
29	30 Settlement day of index future	31	( )Underlying Closing Price in the brackets ***Market closed on red days**			

For index warrant, the settlement price is based on the EAS price of the index on the maturity date of the warrant. (The EAS price is a 5 minute average price of the last trading day of the same month expiry index futures contract, calculated and announced by the Future Exchanges)

Example:

Date	EAS Price
30-Jul	20,000 points

Assume the exercise price of the index call warrant is 19,400 points with conversion ratio of 15,000:1 and maturity date on 30 July

$$\text{Cash settlement amount} = \frac{\text{EAS} - \text{exercise price}}{\text{conversion ratio}}$$

$$\frac{20{,}000 \text{ points} - 19{,}400 \text{ points}}{15{,}000} = \$0.04$$

How should an investor pick the right warrant?

Steps:

After establishing your view that the implied volatility of the underlying asset is going to be flat or higher:

1. Determine where the price of the underlying asset is going

- Investors should determine the underlying price movement in the future. Consider call warrant for rising underlying price and put warrant for declining underlying price.

2. Select the appropriate exercise price*

- Generally, 5% -15% out-of-the-money (OTM) warrants are more actively traded in the market.
- If you think there will be a surge or fall in the price of the underlying asset, you may select slightly out-of-the-money warrant.
- More in-the-money (ITM) warrants generally have lower leverage while more out-of-the-money warrants have higher effective gearing.
- However, the sensitivity of OTM warrant to the underlying price has higher chance to drop. For extreme case, it is possible that a far OTM warrant has no reaction to changes in the underlying price.

3. Select an appropriate maturity date

- The price of a warrant drops as it approaches maturity
- When a warrant approaches maturity, it has lower time value, but the decline in time value will be faster too.
- Investors should avoid choosing out-of-money warrants with less than one month to maturity. These warrants are called "penny warrants", their prices might be lower but the associated risks are very high, since if these warrants expire OTM, investors will lose the principal of their investment.
- Time value of warrant with longer maturity will decay relatively slower on a daily basis. It allows investors to take a longer time to exercise the warrant. Generally, warrants with maturity of 3-6 months are more actively traded in the market.

4. Select an appropriate leverage

- The price of warrant fluctuates. The higher the leverage, the greater the potential reward and risk.
- The effective gearing of a warrant holds only when implied volatility, time value, supply and demand factors and interest rate remain constant.

5. Set "Take Profit"and "Stop Loss" levels

- Due to the special nature of time value decay and gearing effect, investors are not suggested to hold warrant for a long period of time.
- Before investing in warrant, investors should consider carefully its weighting in their portfolios and set take-profit and stop-loss levels. No matter the view is right or wrong, investors should strictly follow their risk management strategies and safeguard their portfolios.

*Assuming other factors remain unchanged

March on and defend – CBBC

What is a CBBC?

CBBC:

Callable Bull Bear Contract, or CBBC, is a structured product with gearing effect, which allows investors to track the performance of an underlying asset with lower investment capital. Intrinsic value and funding costs are the two major components of the price of CBBC.

- Intrinsic value is the difference between the spot price of the underlying asset and the exercise price of CBBC.
- Funding cost is the charge that an issuer imposes on the investors to cover its financing costs, and it typically reduces on a daily basis as the CBBC approaches maturity. Financial costs are usually adjusted according to the borrowing rate of the market.

Unlike warrant, CBBC not only has exercise prices but also call prices. There are mainly two types of CBBC:

- **Category R CBBC** refers to a CBBC that has a "residual value" after the mandatory call event. When a Category R CBBC is called, its intrinsic value is generally above HKD0, and therefore it may have residual value to be distributed to its holders. In the worst case scenario, there may be no residual value. CBBCs currently traded in the market are Category R CBBCs.
- **Category N CBBC** refers to a CBBC that has "no residual value" after the mandatory call event, its call price and the exercise price are set at the same level.

	Bull contract	Bear contract
Category	Category R Bull Contract	Category R Bear Contract
Function	Bullish view	Bearish view
Where the call price and exercise price are placed	call price > exercise price	call price < exercise price

Major factors that influence the price of a CBBC

CBBC is in-the-money product which has Delta close to 1. CBBC's price is affected by the underlying price, exercise price, maturity date, dividends and market interest rate. As CBBC is in-the-money, unlike warrant, CBBC is not much affected by implied volatility and time value. Bull (Bear) contracts represent optimistic (pessimistic) view towards the underlying asset's performance.

The price of a CBBC = intrinsic value + funding cost

Intrinsic value is the difference between the spot price of underlying asset and the exercise price of CBBC.

$$\text{Intrinsic value of bull CBBC} = \frac{\text{spot price of underlying} - \text{exercise price of bull CBBC}}{\text{conversion ratio}}$$

$$\text{Intrinsic value of bear CBBC} = \frac{\text{exercise price of bear CBBC} - \text{spot price of underlying}}{\text{conversion ratio}}$$

Funding cost

Funding costs vary by issuer depending on their respective borrowing rates used which include the Hong Kong Interbank Offered Rate (HIBOR), the London Interbank Offered Rate (LIBOR) and overnight interest rate. Funding costs tend to reduce over time as does the price of a CBBC. When a CBBC is called back or when it matures, its funding cost will be zero.

Premium

The premium of a CBBC is regarded as the financial cost of an issuer. Generally, CBBC with higher premium is considered as more expensive. However, the direct comparison of premium only applies to a CBBC with the same terms.

$$\text{Bull premium (\%)} = \frac{[\text{exercise price} + (\text{bull price} \times \text{conversion ratio})] - \text{underlying price}}{\text{underlying price}} \times 100\%$$

$$\text{Bear premium (\%)} = \frac{\text{underlying price} - [\text{exercise price} - (\text{bear price} \times \text{conversion ratio})]}{\text{underlying price}} \times 100\%$$

Tips

Bull CBBC with longer maturities, especially those that pay dividends in between their launch dates and maturity dates, are more likely to appear discounted, as the premium formula does not take into consideration the ex-dividend factor. However, after the underlying assets pay out the dividend, the discount of the CBBC may lessen.

Call price

When the underlying price approaches the call price, the actual fluctuation of the CBBC price may be more than in theory due to market demand and supply factors and the increased difficulties for an issuer to hedge its position.

If the underlying price touches the call price of a CBBC, the CBBC will be called back by the issuer. Trading of the CBBC will stop immediately and will not resume regardless further fluctuation in the underlying price. Settlement will take place at a later date.

Exercise price

The exercise price is used to calculate the settlement price of a CBBC. When a category R CBBC is called back by the issuer, the holder of the CBBC can theoretically get back the residual value — the difference between the exercise price and the settlement price of the CBBC. Assuming other factors remain unchanged, in theory, when the exercise price is closer to the call price, the higher the effective gearing of a CBBC and vice versa. However, if a CBBC is called back mandatorily before maturity, the settlement value may be lower.

Market interest rate

Theoretically, when market interest rates go up, the bull price goes up and the bear price goes down.

The difference between actual dividend and issuer's expectation

If the underlying asset pays dividend more or earlier than the issuer expected, the bull CBBC price may decrease and the bear CBBC price may increase.*

On the other hand, if the underlying asset distributes dividend less or later than the issuer expected, the bull CBBC price may increase and the bear CBBC price may decrease.*

* Assuming other factors remain unchanged.
For details, refer to Listing Document.

Tips

The ex-dividend event of an underlying asset might indirectly increase the chance of a bull CBBC Mandatory Call Event. When the ex-dividend event causes a drop in the underlying's price, and in turn the call price of a bull CBBC is touched, the bull CBBC is called and trading will be suspended. Investors should pay attention to the timing and quantity of dividend distribution of the underlying asset.

Factors	Direction	Bull price	Bear price
Underlying price	▲	▲	▼
Exercise price	▲	▼	▲
Remaining time	▼	▼	▼
The difference between actual dividend and issuer's expectation	▲	▼	▲
Interest rate	▲	▲	▼

Theoretical price of CBBC and methods of calculation

Example: Index bull contract A	
Call price:	19,988 points
Exercise price :	19,788 points
Funding cost:	2%
Conversion ratio:	15,000:1
Underlying spot price:	20,500 points
Index bull contract A theoretical price:	$\left(\frac{\text{underlying spot price} - \text{exercise price}}{\text{conversion ratio}}\right)$ + funding cost $\left(\frac{20{,}500 \text{ points} - 19{,}788 \text{ points}}{15{,}000}\right) \times (1+2\%)$

Tips: The greater the conversion ratio, the lower the CBBC price. In the above example, conversion ratio of 15,000:1 means 15,000 shares of bull contract A converts to 1 share of the underlying.

Calculation of CBBC theoretical price movement

Gearing ratio is the percentage change of the CBBC's theoretical price compared with the price of the underlying asset. For example, the CBCC's gearing ratio is 12x. When its underlying price moves by 1%, the CBBC theoretical price should move by 12%.

$$\text{CBBC gearing ratio} = \frac{\text{underlying price}}{\text{CBBC price x conversion ratio}}$$

Example: Price of underlying: $200	
Single stock bull CBBC price:	$0.1
Gearing:	12x
If the underlying price of the bull CBBC moves from $200 to $210 (increases by 5%)	
The theoretical price of the bull CBBC becomes:	= bull CBBC price x [1+(underlying price percentage change x gearing ratio) = $0.1 x [1+(5% x 12)] = $0.16

Mandatory call event

When the underlying price hits the CBBC's call price, the CBBC will be called back. Trading of the CBBC will stop, and the observation period will begin.

Observation period: Commences from the time upon which a mandatory call event occurs in the trading session of the Exchange up to and including the end of the following trading session.

Bull CBBC: The settlement price is the lowest price of the underlying within the observation period
Bear CBBC: The settlement price is the highest price of the underlying within the observation period

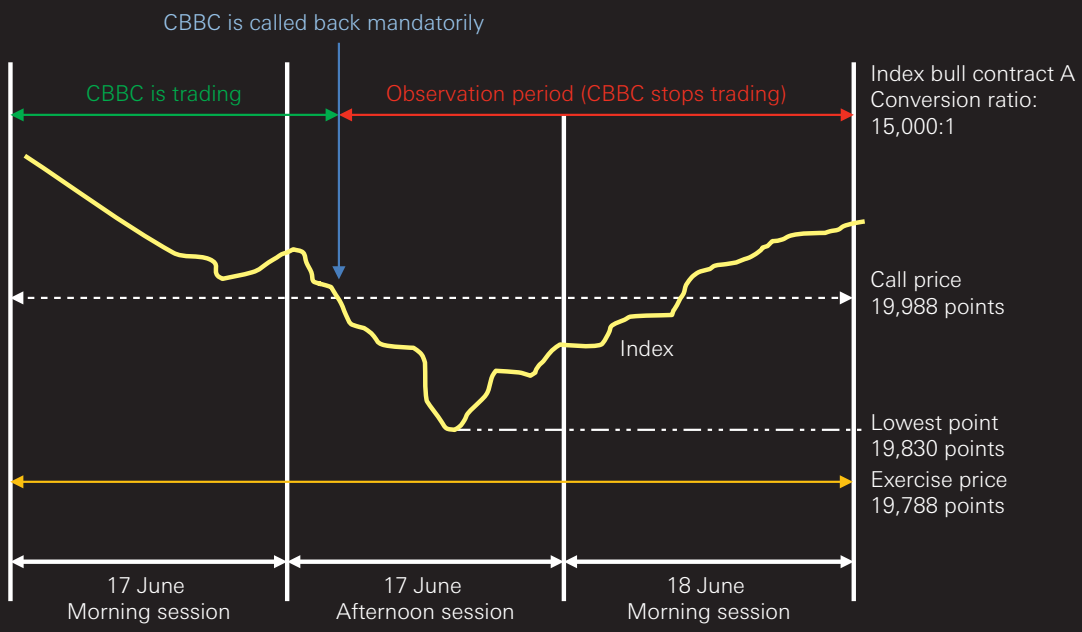
If the price of the underlying asset touches the exercise price of the CBBC, the residual value of the CBBC will be zero.

Residual value calculation formula:

$$\text{Bull residual value} = \frac{\text{settlement price of the underlying asset} - \text{exercise price of the bull CBBC}}{\text{conversion ratio}}$$

$$\text{Bear residual value} = \frac{\text{exercise price of the bear CBBC} - \text{settlement price of the underlying asset}}{\text{conversion ratio}}$$

Example: Index bull CBBC is mandatorily called back



Index touches 19,988 points, which is the call price of the bull CBBC on 17 June in the afternoon. Index bull contract A is called back mandatorily and trading stopped. Observation period commences right away, and ends the following trading session which is the end of 18 June morning session. During the observation period, the lowest point of the Index is 19,830 points. Therefore, the settlement value of the Index bull CBBC is 19,830 points.

$$\text{Residual value of Index bull CBBC} = \frac{19{,}830 \text{ points} - 19{,}788 \text{ points}}{15{,}000} = \$0.0028$$

Settlement of CBBC at maturity

$$\text{Bull settlement amount} = \frac{\text{settlement price of the underlying} - \text{exercise price of the bull CBBC}}{\text{conversion ration}}$$

$$\text{Bear settlement amount} = \frac{\text{exercise price of the bear CBBC} - \text{settlement price of the underlying}}{\text{conversion ration}}$$

For **individual stock** CBBC, settlement price is the closing price of the underlying 1 trading day before the maturity date of the CBBC (The closing price on the maturity date is not included).

Example:
Assume exercise price of the underlying's Bull is $3.5, with conversion ratio of 1 and maturity date on 24 July:

$$\text{Cash settlement amount} = \frac{\$3.8 - \$3.5}{1} = \$0.3$$

July

Monday	Tuesday	Wednesday	Thursday	Friday	Saturday	Sunday
15	16 ($3.5)	17 ($3.6)	18 Holiday	19 ($3.8)	20	21
22 ($3.6)	23 (Settlement price $3.8)	24 Maturity date	25	26	27	28
29	30 Settlement day of index future	31	( )Underlying Closing Price in the brackets ***Market closed on red days**			

For **Index** CBBC, the settlement price is based on the EAS price of the index on the maturity date of the CBBC. (The EAS price is a 5 minute average price of the last trading day of the same month expiry index futures contract, calculated and announced by the Future Exchanges)

Example:

Date	EAS Price
30-Jul	21,000 points

Assume the exercise price of the Index bull is 19,988 points with conversion ratio 15,000:1 and maturity date on 30 July

$$\text{Cash settlement amount : } = \frac{21{,}000 \text{ points} - 19{,}988 \text{ points}}{15{,}000} = \$0.067$$

How should an investor pick the right CBBC?

1. Understand that a CBBC can be called back

- When the price of the underlying asset touches the CBBC call price, the CBBC will be called back mandatorily. The maximum loss of buying CBBC is capped at invested principal.

2. Determine where the price of the underlying asset is going

- Investors can choose CBBC if they want to hold a product which price is less sensitive to implied volatility and time value.
- Investors should select CBBC with appropriate terms and conditions according to the personal expectations of the underlying price movement. For instance, if you are bullish on an underlying, consider bull contract; if you are bearish on an underlying, consider bear contract.

3. Select an appropriate call price

- If you think there will be a short-term surge or fall in the price of the underlying asset, you may select close to call price CBBC with higher leverage to obtain higher returns. However bear in mind that this type of CBBC also tends to have a higher chance of being called back.
- Assuming everything else being the same including the call price, if the exercise price is closer to the call price, the CBBC tends to be less expensive and offers higher effective gearing.
- Investors have to balance the risks of a mandatory call event and choose CBBC that is suitable to their own risk appetites

4. Select an appropriate maturity date

- When a CBBC approaches maturity, it carries less funding cost and premium.
- Investors may not be able to capture the mid term trend in underlying price movement using CBBC with short maturity.

5. Select an appropriate leverage

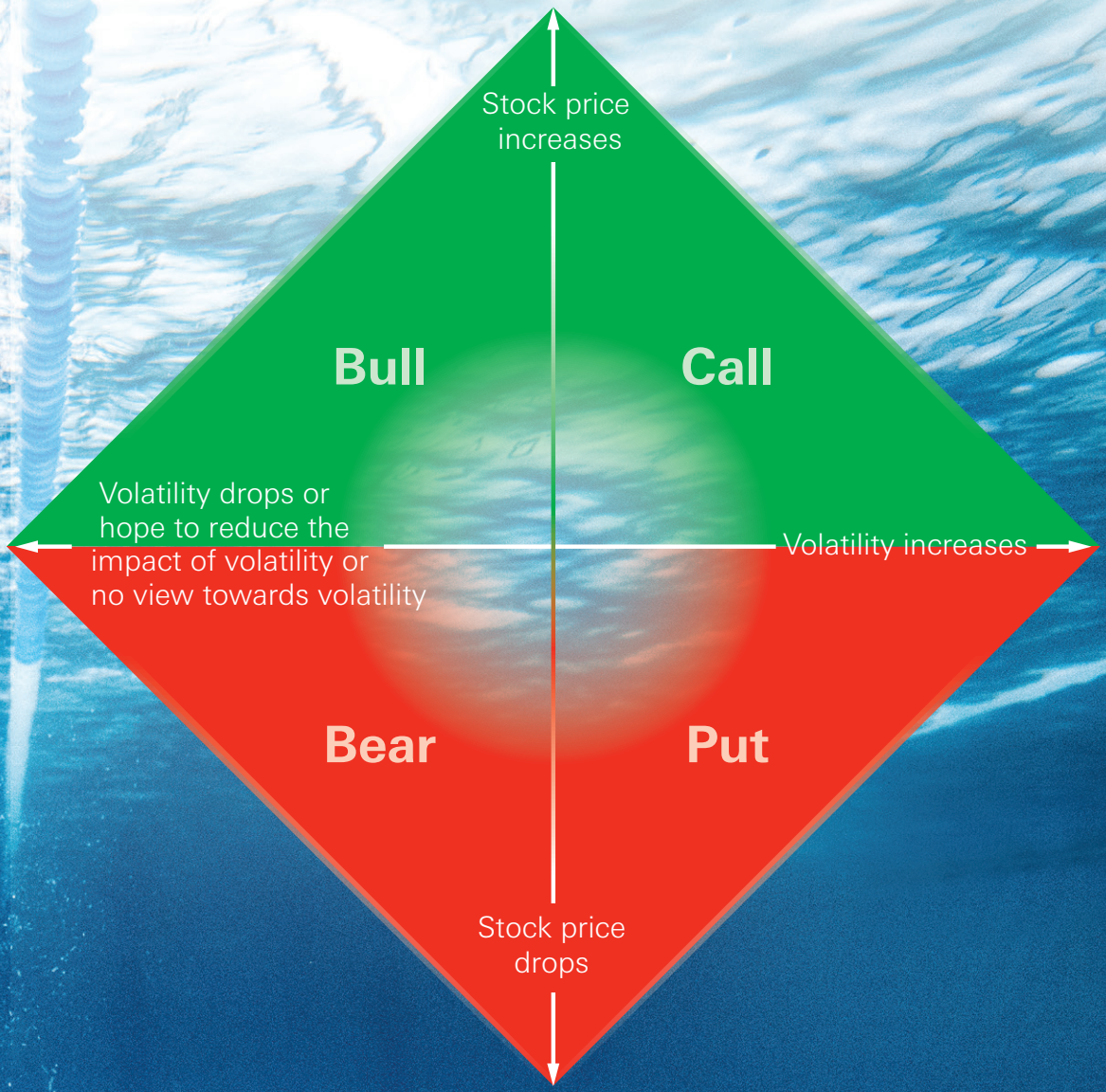
- The higher the leverage, the greater the potential reward and risk.
- CBBC generally offers higher gearing than warrant, but CBBC can be called back mandatorily.

6. Set "Take Profit" and "Stop Loss" levels

- Due to the maturity date and gearing effect, investors are suggested not to hold CBBC for a long period of time.
- Before investing in CBBC, investors should consider its weighting in their portfolios very carefully and should set take-profit and stop-loss levels. No matter the view is right or wrong, investors should strictly follow their risk management strategies and safeguard their portfolios.

Set sail – Risk and strategy

Strategies of using warrant/CBBC



Risks of warrant/CBBC

1. **No collateral**
   Warrant and CBBC are not secured on any assets or any collateral. If the issuer becomes insolvent, you may lose all of your investment.

2. **Gearing effect**
   Warrant and CBBC have gearing effect, which can amplify volatility of the underlying's price movements. An investor must understand that the value of Warrant/CBBC may drop to zero and he/she may lose all the investment.

3. **Maturity date**
   Warrant and CBBC have maturity date. Their price will decrease as they approach maturity. The product may have no value after maturity date.

4. **Price volatility**
   Actual warrant and CBBC price may be different from their theoretical value because of external factors (such as market supply and demand, the dividend rate, etc.).

5. **Liquidity risk**
   HKEX requires warrant and CBBC issuers to appoint a liquidity provider to quote bid and ask prices for products. If the liquidity providers fail to perform their duties or fail to fulfill their responsibilities because of technical reasons, the related products cannot be traded.

6. **Issuer's credit risk**
   If the issuers become insolvent, warrant and CBBC investors will be treated as unsecured creditors without preferential claims on issuers' assets. Therefore, investors must note Warrant/CBBC issuers' financial stability and credit risk.

Warrant/CBBC quoting rules

Issuers are liquidity providers of warrant and CBBC. Liquidity of warrant and CBBC are affected by the hedging costs of the issuers, liquidity of the underlying assets, spread, and implied volatility, etc. When a liquidity provider receives a "quote request", it will enter trading instructions into HKEX's trading system to provide liquidity in accordance with the service standards stated in the offering document. Service standard generally includes:

a Maximum response time to "Quote Request", the longest time the liquidity provider can take to quote the price for an investor after receiving request.
b. Maximum bid-ask spread.
c. Minimum quote size.
d. Circumstances under which quotes will not be provided.

"Quote Request" service standard:

Maximum bid-ask spread :	20 spreads
Maximum quote response time :	10 minutes
Minimum quote size :	20 board lots
Minimum holding time :	5 minutes

In several cases, the liquidity provider should follow the service standard contained in the industry principles, actively inputting orders into HKEX's trading system to provide "Active Quotes" (even if investors do not have any request).

Under "Active Quotes" guideline, the maximum bid-ask spread is:

(a) 5 spreads for warrant linked to a local index;

(b) 10 spreads for warrant linked to an actively traded stock;

(c) 10 spreads for CBBC linked to a local index;

(d) 15 spreads for CBBC linked to an actively traded stock;

The minimum quote size for Active Quotes is 20 board lots

For more information on "Quote Request" and "Active Quotes", please refer to HKEX website: https://www.hkex.com.hk/eng/index.htm

More information on warrant and CBBC

(A) HKEX Website:
https://www.hkex.com.hk/eng/index.htm

(B) SFC Website, providing education materials on structured products:
http://www.sfc.hk/web/EN/index.html

(C) Frequently Asked Questions: Hong Kong listed Warrant and CBBC Market
http://www.warrants.hsbc.com.hk/education/faq

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